

Service Date: July 8, 1981

DEPARTMENT OF PUBLIC SERVICE REGULATION
MONTANA PUBLIC SERVICE COMMISSION

IN THE MATTER of the Application of) UTILITY DIVISION
the CITY OF LAUREL To Increase Water)
Rates, To Define Its Water Service) DOCKET NO. 80.11.108
Area and Modify Rules and Regulations) ORDER NO. 4745a

APPEARANCES

FOR THE APPLICANT:

Larry D. Herman, ,Mayor, P.O. Box 10, Laurel, Montana 59044

FOR THE INTERVENORS:

None

FOR THE COMMISSION:

Calvin K Simshaw, Staff Attorney, 1227 11th Avenue, Helena,
Montana 59620

BEFORE:

Thomas J. Schneider, Commissioner & Hearing Examiner

FINDINGS OF FACT

1. On November 10, 1980, The City of Laurel, (Applicant or City) filed an application for authority to increase water rates, on a permanent basis, by approximately 34%, equaling an annual revenue increase of approximately \$98,650.

2. Concurrent with the filing of the permanent application for increased rates, the City filed an application for an interim increase in rates of approximately 15.1% equaling a revenue increase of approximately \$48,350 or 49% of the

proposed permanent increase.

3. The Commission on January 26, 1981, having considered the justification submitted by the City, issued an order granting the City interim rate relief equal to \$48,350. (Order No. 4745)

4. The interim relief granted the City was to be spread to all classes of customers by raising all rates and charges by a uniform 15.1%.

5. On April 7, 1981, pursuant to notice of public hearing, a hearing was held in the City Council Chambers, City Hall, Laurel, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed water rate adjustment.

6. At the public hearing the Applicant presented the following six witnesses:

Ken Beven, Former Utility Director David Michael, Public
Utility Director Don Hackman, City Clerk Curtis
McKenzie, City Manager Larry Herman, Mayor Sharon
Herman, Deputy-City Clerk

These witnesses testified relative to the increases experienced in operation and maintenance expense, the need for monies to provide for recurring annual capital improvements, the financial condition of the water utility and the proposed rate structure modifications.

7. Two public witnesses testified at the public hearing:

Ralph Dixon, President Meadowlark Development
Otto Preikszas, Water Subscriber

Mr. Dixon acknowledged that it was his opinion that some increase in water rates was warranted but was present at the

hearing to object to the manner in which rates were assessed to multiple family units. It was his opinion that a base rate unit charge should not be assessed against each unit but rather a straight consumption charge be assessed on the metered usage. Mr. Preikszas was present to object to the deletion of sprinkling rates and to insure that an increase in sewer charges would not result from any increase in water rates granted. The Commission assured Mr. Preikszas that no increase in sewer charges would result by the granting of increased water rates.

8. The test year in this case is the fiscal year ending June 30, 1980 adjusted for an annual inflation rate of approximately 7%. The Commission finds the test year adjusted for inflation to be a reasonable period within which to measure the expenses for the purpose of determining a fair and reasonable level of rates and accepts the City's projection that operating expenses will be \$388,580.

9. The City in this case has also requested approval of revenues sufficient to provide funds for a recurring annual capital improvement program. The City is requesting that the Commission grant rates sufficient to provide \$50,000 annually for funding of this program. The Commission finds that adequate funding of this type of account is both prudent management and regulation in that it allows for proper system maintenance.

10. The Commission finds a total revenue requirement in this case of \$438,580 which is the addition of the operating expenses and the requested funds for the recurring annual capital improvement program ($\$388,580 + \$50,000 = \$438,580$).

11. There was considerable discussion on the record relating to the cost of providing raw water to the Cenex refinery because it appeared that a rate of 8 cents per 1000 gallons did not cover the cost of providing this water. During cross-examination Mr. Bevens admitted that the proposed rate of 8

cents per 1000 gallons did not cover the cost of providing this water. Mr. Bevens stated that it was his determination that the raw water supplied to the refinery costs approximately 12 cents per 1000 gallons. Therefore the Commission finds that the City should charge a rate of 12 cents per 1000 gallons for untreated water. The Commission finds that in future filings the costs of the raw water facility should be separately examined and presented.

12. The City in this filing has requested authorization to amend its rate structure from the present customer charge plus consumption rate to a customer charge that allows for 300 cubic feet of consumption before the consumption rate is applied. The Commission is of the opinion that the City should continue with the assessment or a customer charge that makes no allowance for consumption. This will insure that the City will collect sufficient funds to cover its administrative costs and that the consumption rate will collect from the consumer only the cost of providing water service. The City's exhibits indicate that Administrative costs for the water utility are \$84,500. This divided by the number of customers (2,170) will result in a customer charge of \$3.24. The Commission finds that the City should continue the assessment of the customer charges currently in effect of \$3.20 for in City users and \$4.95 for out of city users.

13. There was testimony given by Ralph Dixon, President of Meadowlark Development that the City's Multiple Family Unit Rate should be modified. Mr. Dixon testified that at the present time the City assesses multiple units \$3.20 for each occupied unit and allows 300 cubic feet of consumption for this charge. It was Mr. Dixon's contention that even though a multiple unit has a larger service connection the multiple unit could not consume as much water as the multiple family

unit rate implies. This is because the service connection size, in comparison with the standard single family connection, could only supply seven times the amount of water of a 3/4 inch connection. (Mr. Dixon has a four inch meter on his multiple unit). Mr. Dixon continued stating that at the time his apartments were built he had to pay the price differential between a 3/4 inch meter and the four inch meter that was installed.

Given the fact that the developer paid the differential meter cost and larger service line initially, it is difficult to justify a higher "customer charge" to the multi-unit dwelling. However, an argument can be made that the larger main associated with fireflow and peak usage requirement may well justify a higher customer charge or demand charge. No such evidence was presented in this case. Consequently, the Commission finds that the \$3.20 customer charge and flat consumption rate should apply to each customer, including multiple family units. This treatment is consistent with the characteristics of a large master metered industrial customer with numerous distribution points or uses within its property. Therefore, the Commission finds that the City should eliminate the multiple family unit rate and assess these accounts one customer charge and a consumption rate on all water consumed.

14. The Commission finds that the following revenues will be generated by the assessment of the customer charge and the untreated water rate:

Customer Charge	\$ 85,659
Untreated Water	<u>49,708</u>
Total	\$135,367

15. The total revenue requirement recognized in this case is \$438,580 deducting the revenues in finding number 14 from

this total leaves \$303,213 to be generated from the assessment of a consumption rate. Total water consumption for the year 1980 was 91,962,965 cubic feet. Dividing the consumption into the revenue to be generated by the consumption rate results in a rate charge per hundred cubic feet of 33 cents. The Commission finds that the City shall file a consumption rate of 33 cents per one hundred cubic feet of water consumed.

16. The Commission finds the existing fire hydrant fee of \$1.50 per month should be increased to \$1.90 per month which is consistent with the overall increase granted in this case of about 29 percent.

17. Applicant stipulated on the record to the issuance of a final order in this matter.

CONCLUSIONS OF LAW

1. The water operations of the Applicant, City of Laurel constitute the operation of a public utility within the meaning of Section 69-3-101, MCA, and as such the Montana Public Service Commission properly exercises jurisdiction over the same.

2. The Commission has afforded all interested persons notice and opportunity to participate in these proceedings.

3. The rates approved herein are just and reasonable.

ORDER

NOW THEREFORE, IT IS ORDERED that the Applicant, City of

Laurel shall file rates with this Commission consistent with the Findings of Fact portion of this order and as are necessary to produce \$438,580 in annual revenues.

DONE IN OPEN SESSION at Helena, Montana this 6th day of July, 1981 by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

GORDON E. BOLLINGER, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary
(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Re consideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp.38.2.4806 ARM.